EXECUTIVE SUMMARY

Background

Indian Railways (IR) is a departmental commercial undertaking of the Government of India. It consists of 65,808 route kms* on which 21,598 trains ply, carrying about 23 million passengers and hauling nearly 2.90 million tonne of freight everyday. Policy formulation and overall control of the Railways is vested in Railway Board comprising of the Chairman, Financial Commissioner and other functional Members. The IR system is managed through 17 zones having 68 operating divisions. Apart from the zonal railways representing the operational part of the system, there are seven production units engaged in manufacturing of rolling stock and other related items.

From 1 April 1950, a separate Railway Budget is being presented to the Parliament prior to presentation of the General Budget every year. Though the Railway Budget is presented to Parliament separately, the figures relating to the receipts and expenditure of IR are also shown in the General Budget, as Railway Budget forms part of the total budget of the Government of India.

Summary of Conclusions

Report of the Comptroller and Auditor General of India-Union Government (Railways) for the year ended 31 March 2013 (Report No.19 of 2014) highlighted that during 2012-13, total revenue receipts, increased by 18.76 *per cent* which was above the Compound Annual Growth Rate (CAGR) of 9.17 *per cent* during the period 2008-12. The growth of freight earnings and passenger earnings were 22.60 *per cent* and 10.89 *per cent* respectively, which were above the CAGR achieved during 2008-12. Net surplus after meeting dividend liability was ₹ 8,266.25 crore in 2012-13. The Operating Ratio improved as compared to the previous year.

During 2013-14, total revenue receipts increased by 13.50 *per cent* which was above CAGR of 12.24 *per cent* during the period 2009-13. Though the growth rate of freight earnings and passenger earnings was 10.14 *per cent* and 16.63 *per cent* respectively over the previous year, the growth in the freight earnings was below the CAGR, whereas in case of passenger earnings it was above the CAGR achieved during 2009-13.

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* ***Route-kilometre-The distance between two points on the railway irrespective of the number of lines connecting them viz., single line, double line, etc.***

The Operating Ratio deteriorated to 93.60 in 2013-14 from 90.19 in 2012-13. Net surplus after meeting dividend liability stood at ₹ 3,740.40 crore in 2013-14, which is less than the budget estimates by 71.55 *per cent.*

Depreciation Reserve Fund and Pension Fund closed with negligible balances of ₹ 1,021.38 crore and ₹ 419.04 crore respectively in 2013-14. Development Fund closed at ₹ 3,053.02 crore and Capital Fund closed with a negligible balance of ₹ 557.32 crore in 2013-14.

A positive balance in Capital Fund was achieved by diverting payment of lease charges to Indian Railway Finance Corporation (IRFC) from Capital Fund to Capital received as General Budgetary Support from Government of India. This had resulted in depriving the Railways of the additional investments that could have been made on other capital works. It also made the borrowing from IRFC more expensive as dividend of ₹ 248.54 crore is required to be paid to Government of India on any expenditure incurred from Capital. Further, the contribution to the Depreciation Reserve Fund was not made as per requirement despite there being a huge backlog of renewal and replacement of over aged assets in the railway system which is required to be replaced for safe running of trains.

IR was unable to meet its operational cost of passenger and other coaching services. During 2012-13, there was a loss on passenger and other coaching services of ₹ 26,025.46 crore. The freight services earned a profit of ₹ 33,221.24 crore which indicated that 78.34 per cent profit for freight traffic during 2012-13 was utilized to compensate the loss on passenger and other coaching services. The above issues have been regularly highlighted in the preceding Reports of Comptroller and Auditor General of India-Union Government (Railways)-Railways Finances.

IR incurred ₹ 2,719.75 crore more than the authorization given by Parliament in six revenue grants, one segment of capital grant, 10 revenue appropriations and two segments of capital appropriation despite obtaining supplementary provisions in all except five appropriations. In one appropriation, expenditure was incurred without obtaining original and supplementary provisions. In six revenue grants, one appropriation and one segment of capital grant, there were savings of more than ₹ 100 crore, which the Public Accounts Committee commenting very strongly against such ultra constitutional methods.

The Suspense Heads are intermediary/adjusting heads of accounts operated to record transactions of receipts and payments which cannot be immediately booked to Final Head of Accounts. Audit observed increasing trend in the balances under different suspense heads. Lack of continued and effective review resulted in accumulation of balances. Some balances under Miscellaneous Advance-Revenue, Workshop Manufacture Suspense and

Purchase Suspense date back to 1950-51, 1967-68 and 1986-87 respectively. Commercial and Accounts Departments failed in adhering to the extant provisions in proving the balances under Traffic suspense. Failure of Zonal Railways in reflecting Bills Receivable on accrual basis in the final accounts of Railways resulted in erroneous depiction of outstanding in the final accounts. Non-adjustment of items in the final heads resulted in understatement/overstatement of revenue expenditure and thus affected the operating ratio of the Railways. The accuracy of balances under suspense accounts was affected as there were variations between the figures of suspense balance maintained at Zonal Railways and those appeared in the Balance Sheet and Debt Head Report of IR which needs reconciliation.

Major Recommendations

Some of the major recommendations which are required to be implemented by IR through Financial Adviser & Chief Accounts Officer (FA&CAO) at Zonal Railways and Financial Commissioner (Railways) in Railway Board are summarized below:

- Non-availability of sufficient funds in Depreciation Reserve Fund to replace the over-aged assets and, in Capital Fund to meet its liability of payment towards principal component of lease charges to Indian Railway Finance Corporation is indicative of poor financial health of IR. IR should explore ways and means to improve their fund balances.
- Indian Railways should strengthen its budgetary mechanism and system of expenditure monitoring at various levels (spending units, zonal and Railway Board levels) so that the instances of savings, excesses beyond authorization are minimized. Cases of defects in budgeting need to be analyzed and measures taken to avoid recurrence in future.
- Indian Railways should assess the Supplementary Demand for Grants realistically so that sums obtained through Supplementary Demands for Grants do not remain unutilised or become short of the requirement.
- Indian Railways should make its internal controls effective to reduce the instances of misclassification of expenditure. Deterrent sanctions should be put in place to foster greater responsibilities and accountability at the level of key controlling officers.
- Monitoring mechanism for clearance of old outstanding suspense balances needs to be strengthened at Zonal Railway level. Corrective steps need to be taken for clearance of excessive old items.
- Correct posting with sufficient details should be made in the Suspense Registers. Items should be placed under “Suspense” or written off with the sanction of competent authority.